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Many Workers Don't Know
When They Can Retire

Statement of
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Before the
Select Committee on Aging
House of Representatives



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SUMMARY

Pension benefits are an important part of our nation's retirement income security system. As the pension system matures, more retirees are receiving pension benefits from their employer-sponsored pension plans. Workers will be better able to plan for retirement if they know when they will be eligible to receive benefits from their pension plans.

Millions of workers do not understand their pension plans' retirement eligibility requirements. They don't know when they would first be eligible for normal or early retirement, according to their plans' rules. Using data from the 1983 Survey of Consumer Finances, we identified what workers knew about their retirement eligibility provisions and what types of workers were more knowledgeable.

Regarding early retirement, we estimated that, in 1983:

- Over 40 percent of the 22 million workers in pension plans offering early retirement either were incorrect or did not know about their eligibility for benefits.
- About 75 percent of the 12 million workers who were correct about being eligible for benefits either were incorrect or did not know when they would be eligible to receive them.
- Workers who would be eligible for early retirement, more educated workers, and workers further from their eligibility date for early retirement were more likely to know about their eligibility for early retirement.
- Women were more likely than men to say that they did not know about their early retirement eligibility.

Regarding normal retirement, we also estimated that:

- Over 70 percent of the 25 million workers in pension plans were not correct about when they would be eligible for benefits.
- Men and workers closer to their eligibility date were more likely to know when they would first be eligible for normal retirement.

Over half of the workers who knew they would be eligible for early retirement did not know either the age at which they could begin receiving normal retirement benefits or the age at which they could receive early retirement benefits. Only 11 percent of these workers knew both ages.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss workers' knowledge of when they would first be eligible to receive pension benefits from their plan, the subject of a report¹ we prepared for this Committee as part of a broader review of retirement income policy.

As the pension system matures, more retirees are receiving benefits from their pension plans. Among couples and single persons aged 65 or older, the proportion receiving private pensions increased from 9 percent in 1962 to 24 percent in 1984. In other work for this Committee, we found that early receipt of a pension is becoming increasingly common.² As a percentage of the total population aged 50 to 64, pension recipients doubled between 1973 and 1983, increasing from 6 to 12 percent.

Pension benefits are an important part of retirement income. The median annual income among the elderly who were not working and were receiving both Social Security benefits and employer-sponsored pension benefits was about \$14,400 in 1984, over double

¹Pension Plans: Many Workers Don't Know When They Can Retire, (GAO/HRD-87-94BR, August 1987).

²Retirement Before Age 65: Trends, Costs, and National Issues (GAO/HRD-86-86, July 1986).

the median of about \$6,300 for those receiving only Social Security.

The Congressional Budget Office (CBO) recently projected that pension income will rise more rapidly than other income sources for the elderly because of increased pension participation among today's workers compared with earlier workers. CBO projects that, in 2019, two-thirds of retired elderly singles and 90 percent of retired elderly couples will receive employer pensions. Pension benefits will average about 30 percent of total income, about twice as large as the current share of total income.

The Committee indicated concern that workers who do not know about their pension provisions could be seriously hampered in their retirement planning. Unless workers obtain, or employers provide, accurate pension plan information before workers make decisions affecting their careers, they may make work and retirement decisions they later regret. Private sector employers are required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, to provide understandable pension plan information to participating workers in the form of a Summary Plan Description (SPD). SPDs give workers details about (1) the amount of their pension benefits, (2) age and service requirements for receiving benefits, and (3) conditions that might prevent them from receiving benefits. In addition, under

ERISA, workers may request specific information about their pension benefits from their employers once a year. While these reporting requirements apply only to private sector plans, many public plans furnish similar information to their participants. Workers may also find out about their pension plan from employee benefits counselors or retirement planning seminars.

Our review focused on the extent of workers' knowledge about their retirement eligibility; however, we did not examine potential causes or effects of workers' lack of knowledge. Nevertheless, it is apparent from our data that large numbers of workers, particularly those nearing retirement, don't know when they can retire and consequently, may make work and retirement decisions they later regret. For example, for workers close to normal retirement eligibility (within 5 years), we found 1.7 million or 61 percent were not correct about when they would be eligible for full retirement benefits.

Our work indicates that millions of workers do not understand their plans' early and normal retirement eligibility requirements. They don't know when they would first be eligible for full retirement benefits, referred to as normal retirement, or when they would first be eligible for reduced retirement benefits, also known as early retirement. For purposes of determining when workers would be eligible for normal or early retirement, we assumed that these workers would remain with their

employer at the time of the survey in the same pension plan until retirement.

We used information from the 1983 Survey of Consumer Finances to estimate (1) how many workers in defined benefit plans nationwide knew about their early and normal retirement provisions and (2) what types of workers were more knowledgeable. The survey, conducted by the University of Michigan's Survey Research Center under contract with the Federal Reserve Board, collected pension and other information from a nationwide sample of over 3,800 households and over 1,000 public and private pension plans that covered working members of those households. Pension plan information came from Summary Plan Descriptions and other documents supplied by employers, and from responses to survey questions asked of workers and their spouses. Survey data about early and normal retirement eligibility are projectable to about 25 million workers.

Regarding early retirement, we estimated that in 1983:

- Over 40 percent of the 22 million workers in pension plans offering early retirement either were incorrect or did not know about their eligibility for benefits. Some of these workers thought they would be eligible for early retirement when they would not meet the plan

requirements. Others, who thought they would not be eligible, would meet the requirements.

-- About 75 percent of the 12 million workers who were correct about being eligible for early retirement benefits either were incorrect or did not know when they could first receive benefits. An estimated 7 million workers thought they could retire at an age that differed from plan requirements by more than 1 year. Almost 2 million of these reported an age over 10 years earlier than when they would first be eligible. An additional 2 million did not know when they would be eligible.

-- Workers who would be eligible for early retirement were from 3 to 17 times more likely to know about their eligibility than workers who would not be eligible. In other words, workers who would not be eligible were more likely to be wrong about their future eligibility--reporting, incorrectly, that they would be eligible.

-- Among workers who would be eligible, those who had education beyond high school were twice as likely to know they would be eligible as those without education beyond high school. In addition, those who were more than 5 years from eligibility for early retirement were 1.5

times more likely to know than those who were within 5 years of eligibility.

- Women were from 2.5 to 5 times as likely as men to report that they did not know about their early retirement eligibility.

Regarding normal retirement, we estimated that:

- Over 70 percent of the 25 million workers in pension plans were not correct about when they would be eligible for benefits. An estimated 14 million workers reported an eligibility age that differed from plan requirements by more than 1 year. Almost 4 million of these workers responded with an age over 10 years earlier than when they would first be eligible. Another 4 million workers did not know when they would be eligible for normal retirement.
- Men were 1.4 times more likely than women to know when they would be eligible for normal retirement.
- Workers within 5 years of normal retirement were 1.8 times more likely than workers 5 or more years away from normal retirement to know when they would be eligible.

-- Workers without education beyond high school were as likely as workers with education beyond high school to know when they would first be eligible for normal retirement.

The majority of workers did not know about either their normal retirement age or their early retirement age. Among the estimated 12 million workers who knew they would be eligible for early retirement, we estimated:

- 53 percent were wrong about both their early and normal retirement ages,
- 11 percent knew both their normal and early retirement ages,
- 21 percent knew only their normal retirement age, and
- 15 percent knew only their early retirement age.

Employer-sponsored pensions are one component of our nation's retirement income security system, supplementing social security benefits and private savings. Workers will be better able to plan for retirement if they know when they will be eligible to receive pension benefits from their plan. Our review clearly demonstrates that millions of workers do not know about their eligibility requirements for early and normal retirement benefits.

This concludes my prepared remarks. I will be pleased to respond to questions.